

26

REF ID: A66410728	Approved for Release	CIA-RDP78-034R000100070006-8	SECRET	SECURITY INFORMATION	COUNTRY: BELGIUM
REPORT NO. 11-94-53	SUBJECT: Mechanics of East - West Trade		I. D. NO. 1179275		
FROM: OARNA Belgium	REFERENCES:				
EVALUATION: C-2	DATE OF INFORMATION: Current	DATE OF REPORT: 14 July 1953			
INCI: PREPAID BY: Wendell Blanchard, Colonel, GS-20	SOURCE: Confidential				

SUMMARY OR SID REPORT:

Report purports to describe the mechanics of East-West trade in strategic materials, in considerable detail, and giving several methods of operation, including typical financial dealings. It proposes remedies involving penetration methods, followed by seizure of ships or cargoes.

Comment: Source, a knowledgeable former foreign representative of a country now in the eastern bloc, is undoubtedly accurate in his description of these deals, though probably too optimistic as to the possibility of stopping them by the methods he describes.

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**SECRET**  
Security InformationREPORT NO. R-94-53  
PAGE NO. 2East - West Trade

There follows a translation of a letter furnished by a confidential source describing the mechanics of East - West trade in strategic materials, specifically applicable to that passing through Belgium in "transit" status, but applying equally to any of the "free port" countries of Europe.

\* \* \*

Referring to our previous conversation, I have the honor to present the following description of the mechanics of Belgian trade in strategic products with the USSR and satellite countries (operations of other countries are the same).

A. The Communists rarely purchase strategic materials directly; rather, they maintain individuals, companies or private banks abroad (a) disposing of extensive secret funds. These individuals or firms employ agents (b) who are usually members of the Communist Party in their own country or country of residence. (In any case, individuals or members of firms entrusted with a mission which might lead to their discovery never are members of the Communist Party.) Their task is to contact firms (c) which, in the hope of a good profit, will agree to sell for delivery to the East. Often these firms (c) are well-known and well-considered. They justify their action by the fact that legislation and commercial treaties do not prohibit this trade with the East and it is advantageous to their national economy.

In order to avoid consequences of this trade (black list, refusal of visas, etc.), these respectable firms often organize covert selling companies (d) of not too sound a nature or a corporation with a ridiculously small capital managed by a trusted person (former employee, etc.).

On their side, the Communist firms (a) and their agents (b) often form covert or front companies (e). These attempt to establish relationships with regularly established companies (f) which have a reputation of willingness to engage in operations returning a good profit.

B. In addition to the participation of commercial firms and banks, trade with the Soviets requires the cooperation of maritime agencies (f) for the transportation of merchandise. The Communists have friendly shipping agents in every maritime country, often supported by financial assistance from (a), (b) or (e), but there are also respectable maritime agencies which lend themselves to irregular operations in exchange for good commissions.

C. The purchase and forwarding of strategic merchandise is usually accomplished in the following manner:

The end purchaser, that is, the Communist purchasing organization, asks the company (a), with the agent (b) or the company (e) to procure from respectable companies (c) strategic items which are indispensable to the USSR and Satellites.

On assurances that the strategic merchandise is supposedly destined for a NATO country or a neutral country, the respectable company (more often it knows very well that the items will go to the East!) offers the product directly to (a) or the agent (b) or to the company (e) and if (b) and (e) already have a reputation of trafficking with the East the offer is made through the covert or front company (d). For example, on the demand of (a), (b) or (e), the U. S. or Canadian, etc., firm, offers the merchandise with all the necessary export documents (license, invoice) to the buyer (a), (b), (e), (d), or (f), who is regularly established, for example, in Belgium. The sale is made Cost-Insurance-Freight Belgium or Cost-Insurance-Freight transit Belgium. In the meantime, company (c) receives for its records notification from (b), (e) or (f) that the merchandise has been resold to a company (b'), (e') or (f'), established in a country other than the country of the primary destination, and company (c) is asked to send the merchandise Cost-Insurance-Freight transit Belgium, for, for

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**SECRET**  
Security Information

**SECRET**  
Security Information

REPORT NO. R-94-53  
PAGE NO. 3

example, Denmark, Switzerland, Iran, etc. Companies (b'), (e') or (f') are companies with confidential relationships with (a), (b), (c) and (f).

At this juncture, the end purchaser sends a notice of credit to company (b), (e) or (f) and these give a guarantee of delivery which is, generally, two per cent. As soon as the guarantee of delivery is given, company (a) converts the notice of credit to a sight draft.

Firm (a) which is the confidential Communist buyer -- the name of which is often unknown to (c) and even (b'), (e') or (f') -- normally buys FOB Europe with payment on receipt of shipping documents. As the destination of overseas merchandise sold Cost-Insurance-Freight Europe must be indicated on departure and since the Communist buyer (a) only gives a sight draft on receipt of shipping documents FOB Europe, a bank (g) must participate to finance the operation covering embarkment by company (c) and re-embarkment by (b), (e), (f) or (b'), (e') or (f') to point of final destination. Such banks exist and they finance the operation for a two per cent commission.

The illegal aspect of the operation. As is seen from the above exposé, purchase of strategic material by (b), (d), (e) or (f) from (c) is perfectly legal and expedition to a European port is also effected in a most legal manner. Once the sale is consummated -- and while the goods are in transit -- the buyer (b), (d), (e) or (f) resells the goods, more often fictitiously, to (b'), (e') or (f'). These latter companies, which must necessarily be located in a country other than the one to which (c) sold and shipped the goods, advise the maritime agency (f) that the goods have been resold to a Satellite and that the destination indicated by (c) no longer holds good. The maritime agency therefore does not make a debarkation declaration for the country designated by the original seller (c), but transfers the goods FOB to the shipper of the primary buyer (a). As long as the Port or Customs authorities receive no complaint, they do not intervene because the operation does not concern their country.

The first guilty party is (b'), (e') or (f'), which gives the maritime agency the order to change the destination of the goods knowing that the goods had been purchased by (b), (e) or (f) for a NATO or neutral country. The second guilty party is the maritime agency which transfers the goods to an Eastern destination knowing that according to the shipping documents from company (c) the goods were destined for a NATO or neutral country.

There are graver cases, i. e., when the maritime agency delivers fictitious shipping documents to (b'), (e') or (f') showing destination as a NATO port and transfers the goods to the East. This is done to eliminate the financing bank (g) and increases profit for company (c).

Remedy. To stop this traffic it is sufficient to notify Port and Customs authorities that goods embarked on such and such a ship were not sold for an Eastern country. On the basis of this complaint, Customs and Port authorities have the right to verify the various declarations of the maritime agency and to seize the goods. Inasmuch as the original seller (c) has already been paid, confiscation of the goods represents a direct loss for the Communists and, above all, disorganization and suspicion and loss of confidence among the intermediaries (b), (e), (f), (b'), (e'), (f'), the maritime agency, and the financing bank (g). It is, in effect, extremely difficult among so many parties to determine where the loss took place!

I have explained to you that I have observed this traffic and that I know the companies (a), (b), (c), (e), (f), (b'), (e') and (f'), as well as the maritime agencies and the banks. I have also explained to you that in practice the work in Belgium is very expensive -- because the Belgian view of the matter sees nothing incongruous in working with the East in the event that such traffic brings a profit. The Belgian way of viewing things accepts equally American aid and Communist profits and finds nothing incompatible in these two activities.

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**SECRET**

Security Information

**SECRET**  
Security Information

REPORT NO. R-94-53  
PAGE NO. 4

Collaborators and informers (firms and employees of these firms) must be rewarded and paid; it is impossible for me to find voluntary informers by conviction. Even voluntary informers must be considered suspect, because there is great danger they may be well-paid by Communist counter-espionage. Currently, Communist propaganda among the Belgians insinuates that "the Americans are mixing in our private affairs which do not concern them!"

\* \* \*

There follows a note giving more specific details (though not the names of firms involved) in the cases of two Communist purchases of copper which he claims have passed through transit ports recently. He alleges that one of these "deals" was for 4,000 tons and the other, 10,000. Both are supposed to have been consummated successfully through Rotterdam and financed through Switzerland.

\* \* \*

Referring to my exposé of 12 June 53, I am able to present the following concerning the 4,000 tons of copper:

Buyer (a), a company which is working for Communist account, will give a \$3,000,000 draft through its Swiss bank payable against shipping documents FOB Rotterdam. The seller (c) will embark the goods in America and will furnish the necessary documents (license, Westcertificate, etc.) to embark the shipment FOB Rotterdam and collect the \$3,000,000 at the bank in Switzerland. It is clear that the documents of company (c) will not give the USSR for Poland as destination but rather a NATO or neutral country. A maritime agency in Rotterdam will embark the goods and will give the confidential order and necessary papers so that the ship will change its destination for a Russian or satellite port. It will be possible to seize the shipment by stopping the ship after embarkment and as soon as it will have left the port.

But the seller requires payment for the merchandise FOB an American port, and a bank is necessary to advance the \$3,000,000 which will be repaid in Switzerland against shipping documents FOB Rotterdam.

In the case of 10,000 tons of copper, the seller (c) requests the buyer (a) to furnish a Westcertificate. In obtaining such a certificate for a NATO or neutral country and knowing the number of the certificate, the firm and legal destination, it will be easy to detain the ship and seize the shipment after its transfer to the ship which will transport the cargo to the East instead of to the Westcertificate destination.

\* \* \*

Comment: Source's description of the fairly complicated process of arranging East - West trade deals appears credible, though it is believed that some of these arrangements are probably even more intricate than his outline, especially as regards financing.

The remedy proposed is certainly over-simplified and may well be entirely impracticable, in the opinion of certain members of this Embassy. Source's somewhat cynical but nevertheless realistic way of describing the attitude of Belgian firms probably applies to a certain section of Belgian officialdom as well, particularly at the lower working levels where palms are undoubtedly greased and eyes find it convenient to look the other way.

On the other hand, and for the moment overlooking the difficulties of getting the vitally necessary official cooperation, his observations as to the effect of pursuing such cases to the point of confiscation are undoubtedly true. That is, the risks of the business being what they are and payment, in effect, being made before actual final delivery, any successful blocking operation would mean a dead loss to Comies and collaborators all down the line.

**SECRET**  
Security Information

REPORT NO. R-94-53  
PAGE NO. 5

To set up an effective and continuing operation to counter this illicit trade would of course entail a rather large, specialized and expensive organization. Obviously, there is a strong risk that after two or three operations, it would be "blown" to a degree requiring an entirely fresh start. Nevertheless, it appears evident that, short of a reversal of human nature and the profit-taking instinct of the normal businessman, only organized, clandestine countermeasures will have much effect in checking East - West trade.

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APPROVED:

*Herbert Blanchard*  
HERBERT BLANCHARD  
Colonel, GS  
Army Attache

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